

Message Text

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ACTION EB-07

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TAGS: ETRD, PO

SUBJECT: PORTUGUESE ELIGIBILITY FOR GSP

REF: LISBON 7706 AND PREVIOUS

1. DR. JOAO PEQUITO, DIRECTOR-GENERAL FOR ECONOMIC AFFAIRS, MINISTRY OF FOREIGN AFFAIRS, PHONED ECON COUNSELOR LATE FRIDAY, JANUARY 2, TO DISCUSS GSP. PEQUITO WISHED TO CONFIRM THAT GOP FAILURE TO QUALIFY FOR GSP PRIOR TO JANUARY 1, 1976, DID NOT MEAN THAT PORTUGAL MUST WAIT UNTIL 1977 TO PARTICIPATE IN GSP. ECON COUNSELOR CONFIRMED THAT PORTUGAL CAN BEGIN PARTICIPATING IN GSP AS SOON AS IT HAS QUALIFIED AND APPROPRIATE NOTICE HAS BEEN GIVEN TO U.S. CONGRESS. PEQUITO STATED THAT PERTINENT PORTUGUESE MINISTRIES MAY UNDERTAKE COMPREHENSIVE REVIEW OF GSP SYSTEM AND IMPACT PORTUGUESE PARTICIPATION THEREIN WOULD HAVE ON ITS TRADE RELATIONS WITH EFTA AND EC. IF SUCH A REVIEW IS UNDERTAKEN, GOP WOULD EXPECT TO QUALIFY FOR GSP BY MARCH 1976.

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2. COMMENT: PEQUITO HAS INDICATED CLEARLY GOP'S DISAPPOINTMENT AT NOT HAVING QUALIFIED FOR GSP PRIOR TO JANUARY 1, 1976. PORTUGUESE OFFICIALS FEEL USG, BY RAISING SUCH UNEXPECTED DEMANDS AS MFN TARIFF REDUCTIONS AND NEED FOR PRIOR CONCRETE ACTION, HAS EFFECTIVELY WITHDRAWN ITS OFFER TO QUALIFY PORTUGAL FOR GSP.

3. EMBASSY STRONGLY RECOMMENDS THAT USG RETURN TO ITS ORIGINAL OFFER TO QUALIFY PORTUGAL FOR GSP ON BASIS OF ITS DECLARED INTENT TO ELIMINATE TARIFF DISCRIMINATION AGAINST U.S. EXPORTS. PORTUGAL IS ENTERING INTO AN ACUTE PHASE OF ITS POLITICAL DEVELOPMENT. THE FRUSTRATED NOVEMBER 25 COUP ATTEMPT HAS OFFERED DEMOCRATIC PARTIES AND DEMOCRATIC ELEMENTS IN ARMED FORCES AN OPPORTUNITY TO SOLIDIFY THEIR POSITION, BUT THE ECONOMIC CRISIS COULD WELL UNDERMINE THEIR EFFORTS.

4. PORTUGAL'S DEMOCRATIC ELEMENTS HOPE TO HOLD PRESIDENTIAL AND LEGISLATIVE ELECTIONS ON OR BEFORE APRIL 25, BUT ARE WORRIED ABOUT THREAT FROM COMMUNISTS AND FROM FAR RIGHT. THEY FEEL THE AZEVEDO GOVERNMENT'S CAPACITY TO DEAL WITH PORTUGAL'S ECONOMIC CRISIS WILL BE A KEY FACTOR IN ENSURING THAT POLITICAL EXTREMES ARE NOT ABLE TO USE ECONOMIC SITUATION TO FORESTALL FREE ELECTIONS. GOP BELIEVES THAT TRADE MUST BE A KEY CONTRIBUTOR TO ECONOMIC RECOVERY.

5. SO FAR, THE AZEVEDO GOVERNMENT HAS SHOWN ITSELF WILLING, DESPITE IMMINENCE OF ELECTIONS, TO ADOPT ECONOMIC AUSTERITY MEASURES. FOR EXAMPLE, GOP RAISED PRICE OF GASOLINE TO \$2.59 A GALLON, CERTAINLY ONE OF THE HIGHEST PRICES IN THE WORLD. THE AZEVEDO GOVERNMENT, ABOVE ALL, MUST KNOW THAT THE WEST IS SOLIDLY ON ITS SIDE. IT COUNTS ON OUR SUPPORT AS IT TAKES HARD ECONOMIC DECISIONS WHICH HAVE A NEGATIVE POLITICAL IMPACT. EMBASSY FULLY AWARE OF DESIRABILITY OF MFN. HOWEVER, INSISTENCE ON THE IMPOSITION OF THIS EX-POST FACTO REQUIREMENT WOULD BE A SEVERE BLOW TO GOP. CARLUCCI

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